

State of New Jersey
Office of the Inspector General
Mary Jane Cooper, Inspector General



2009 Annual Report: 5 Year Review

Table of Contents

I.	Message from the Inspector General	1
II.	Office of the Inspector General Overview	2
III.	Office of the Inspector General Investigatory Work	6
IV.	American Recovery and Reinvestment Act: Federal Stimulus Funds to New Jersey	15
IV.	Office of the Inspector General Operational Information.....	16

I. Message from the Inspector General

The Office of the Inspector General's (OIG) 2009 Annual Report is slightly different from years past in that this report serves as a retrospective of some of the most significant accomplishments of this office newly created in early 2005. I present this with immense pride as I near the end of my five year term.

Under my direction, the talented and dedicated OIG staff assembled during my tenure has conducted numerous investigations and reviews of varying scale with findings and recommendations that have been implemented and provided great monetary and accountability benefit to the State. As you will read later in this report, OIG has already identified over \$49 million dollars in rescued State funds and witnessed the justified removal of high-level management in several State departments, agencies, and authorities as a result of our work. The latter could only be accomplished with the detailed comprehensive investigations that OIG conducts and the accumulation of verifiable evidence that results from this type of investigation. The work continues with ongoing investigations and reports in the pipeline.



Whether it is actual dollars saved from being misspent or recouped after the fact as a result of OIG identified patterns of misuse; managers who have been held accountable for improper conduct and are no longer employed by the State; identified weaknesses in an entities' internal control system making it ripe for compromise and recommendations for immediate corrective action to ensure protection of State dollars and assets; or internal control training administered to state, county, and local recipients of Federal Recovery Act dollars, OIG has provided a collection of valuable work. I am pleased to share those highlights with you in this five-year look-back.

New Jersey was one of the early states to recognize the necessity for the independent, investigative function Inspector General offices perform. In addition to the work OIG has conducted here in New Jersey, the office has served as a model for other states following this growing trend and desiring to establish both departmental and independent statewide Inspector General offices. I have spoken with administrations from various states and provided them with useful information and planning strategies for their consideration when creating Inspector General offices.

I am ever mindful of the privilege it has been to serve three governors and the people of New Jersey as the State's first Inspector General, and I am proud to present this report.

Very truly yours,

A handwritten signature in blue ink, which appears to read "Mary Jane Cooper". The signature is fluid and stylized, with a large loop at the end.

Mary Jane Cooper
Inspector General of New Jersey

II. Office of the Inspector General Overview

The Office of the Inspector General (OIG) was created by Executive Order in 2004 and by statute in 2005 to serve as the Governor's investigatory body. In creating this office the Legislature declared, to paraphrase, that there was a need for an executive branch investigative body that would report directly to the Governor to ensure that public officers and employees discharge their duties and responsibilities in a lawful, ethical and transparent manner, while conserving the fiscal resources entrusted to them. To that end, OIG has the statutory authority to seek out waste, mismanagement, and fraud where State funds are spent with the goal of providing increased accountability, integrity and oversight of all recipients of State funds.

OIG's authority extends to all levels of government where State funds are spent – including but not limited to State departments and agencies, independent authorities, county and municipal government and boards of education – and is not limited in terms of the substantive matters the office may investigate. While much of OIG's work has consisted of allegation based investigations of improper conduct, mismanagement, and waste of State funds, unlike other executive branch investigators, OIG can conduct a review of an entity absent an allegation of criminal conduct. Accordingly, OIG is often the only executive branch entity with jurisdiction over matters that involve allegations of civil and not criminal wrongdoing, and that require investigation. This flexibility enables OIG to proactively identify problems before the loss of State dollars occurs, is recognized, or is full blown. Because OIG reports directly to the Governor and is staffed with highly skilled professionals, perhaps its greatest value is its ability to tell the chief executive whether a concern is truly a problem, and if so, how significant.

Regardless of the project, the end result of OIG's investigations has been beneficial change. Whether the result has been specific accountability of management and employees - several high level State employees are no longer employed; millions of dollars of state funds recouped or rescued from misuse; entities reorganized with new management; and revision of policies and procedures to increase oversight, OIG's work has had a positive, visible impact on State government.

- *OIG's findings result in meaningful consequences: financial recoveries, personal accountability and improved government operations.*
- *OIG recovers State funds by identifying fraud, waste and mismanagement.*
- *OIG is the Governor's investigative arm.*
- *OIG's investigation stopped EnCap in its tracks and paved the way for a recovery of over \$100 million from AIG.*
- *OIG's investigation led to the closing of SCC and the creation of SDA.*
- *OIG's review of State Authority benefits is the road map to the "shadow government".*
- *The Authorities' Benefits Review is relied on by the Governor to cut the size and spending of State Authorities.*

Due to the unique nature of OIG's work, it is imperative that the staff possess a variety of qualifications including strong analytical skills with a balanced professional skepticism and a sharp attention to details as they apply to the overall environment. To that end, OIG's 16 person staff, including the Inspector General, is comprised of attorneys, accountants, investigators and professionals who possessed years of experience in both the public and private sectors prior to joining OIG. Most of OIG's accomplished professionals are members of one or more professional organizations in their related field including the Association of Inspectors General, State and County Bar Associations, the Association of Government Accountants, the Association of Certified Fraud Examiners and the American Institute of Certified Public Accountants.

OIG has proven to be an important and effective tool in the Governor's arsenal. The Governor may learn of or receive an allegation of a problem within an agency or a project, such as happened with the \$8.6 billion School Construction Corporation that was found to be wasting millions of State funds essentially without oversight or controls or the EnCap/Meadowlands Redevelopment and Remediation Project (where a private entity was attempting to use public funds to finance its personal development project). Other complaints were brought to the attention of the Governor's Chief Counsel or his Treasurer: for example, concerning the Department of Corrections (a vendor expressed concerns to the Governor's Counsel about the Department's inmate dental health services contract), and the Division of Addiction Services within the Department of Human Services (a former employee lodged complaints by way of a letter concerning the operations of the Division and its Director and the Commissioner and Governor's Counsel asked OIG to investigate).

The Governor and his Counsel must understand whether the allegations are true and warrant action. If when received, the complaints do not appear to involve obvious criminal wrongdoing, OIG is the appropriate entity to examine these matters and provide answers to crucial questions before action can be taken. OIG keeps Governor's Counsel informed of the status of the matter so that corrective actions can be taken – a manager or a vendor can be removed before more harm is done, procedures can be implemented – as required rather than waiting until the end of an investigation.

In fact, in each of the above-referenced cases, OIG's investigation revealed a serious problem, executive branch actions were taken during and after OIG's investigation, and OIG's investigation led to the recovery of State funds, personnel actions, or numerous other remedial actions. In many other matters, OIG has similarly identified failures or omissions that require corrective actions, and as noted, OIG has worked with State entities where appropriate, to fashion necessary remedial measures of various types including procedural reforms designed to prevent transgressions and operational failures in the future. Without OIG's investigations and the agreed upon resolutions, the inappropriate or impermissible activities could conceivably have continued indefinitely.

Since OIG's creation just over five years ago as the investigatory arm of the Governor, it has served its role bringing to light a variety of deficiencies in government. Armed with subpoena power and the authority to administer oaths, OIG has conducted numerous investigations and reviews varying in scope and scale. OIG has prepared a number of detailed self-proving reports of its investigations with a full analysis of the facts and OIG's conclusions. By statute, the final

public reports are provided to the Governor, the President of the Senate, the Speaker of the Assembly, and the entity at issue.

OIG's reports have been the impetus for a variety of reforms; executive branch entities have initiated numerous corrective actions in response to OIG's recommendations; and the Governor has signed legislation and executive orders that were in direct response to OIG's findings. While audits raise red flags, only investigations finding evidence of individual wrongdoing can be used to hold individuals accountable. That is why when OIG finds an individual responsible, supportable personnel action can and has been taken. The cancer can be excised and a government agency can continue to function with new management and fortified policies and procedures.

Among the government entities in which OIG has investigated or reviewed matters are the following:

- Meadowlands Commission (EnCap project)
- Schools Construction Corporation (several reports)
- Schools Development Authority (multiple investigations)
- Department of Corrections (two reports)
- Department of Human Services – Division of Addiction Services (two reports)
- Department of the Treasury – Division of Pensions
- Department of the Treasury – Division of Taxation
- Department of the Treasury – Lottery
- Department of Transportation
- Sports & Exposition Authority (NJSEA)
- New Jersey Network (NJN)
- Casino Reinvestment Development Authority (CRDA)
- South Jersey Transportation Authority (SJTA)
- Higher Education Student Assistance Authority (HESAA)
- Cherry Hill School District
- Passaic Valley Sewerage Commission
- West Atlantic City Public Works
- Department of Banking and Insurance
- Victims of Crime Compensation Agency
- Annual Comprehensive Authorities Benefits Review (50 State authorities; four annual reports)

Demonstrating OIG's versatility, the office simultaneously conducted an across the board review of State authority benefits and a top-to-bottom intensive look at certain authorities. Both resulted in cost savings and other corrective actions. Recently, OIG created and administered a statewide internal control initiative that has trained more than 1,600 recipients of federal Recovery Act funds that has been positively recognized by the federal Government Accountability Office and welcomed by State administrators at all levels.

Most OIG projects are referrals from the Governor's Office, State entities, or legislative offices and have involved a wide variety of subjects and government entities. From its beginning, OIG also received citizen concerns. OIG set up a "hot-line" and a program for addressing these concerns. Since 2005, OIG has acknowledged, reviewed, determined the appropriate course of action for, and tracked approximately 700 concerns.

III. Office of the Inspector General Investigatory Work

\$8.66 Billion New Jersey Schools Construction Corporation **(Project halted to prevent waste of remaining \$4 billion; entire management replaced)**

Highlights: OIG's review of the School Construction Corporation (SCC) began in early 2005 at a point when it had already dispersed half of the initial \$8.6 billion in State funding, including the approval of approximately \$540 million in change orders. OIG quickly determined the authority had weak financial controls, glaring internal control deficiencies, and lax or nonexistent oversight and accountability. Within weeks, based on OIG's initial findings, construction was halted until the entire management team was replaced and a new Chairman of the Board seated.

In 2007, following several OIG reports detailing mismanagement, ineffective oversight, and poor organization as a whole, SCC was dissolved and replaced with the newly structured Schools Development Authority (SDA), and at the recommendation of OIG, a unit within OIG dedicated to investigating SDA-related matters was established. This dedicated unit has continued under all SDA administrations as they have found it to provide a valuable function and beneficial to the overall integrity of the organization. SDA OIG has issued several reports of findings that are highlighted later in this report. These investigations and their reports of findings to SDA management have identified cost saving actions, misconduct by employees and others providing the basis for personnel actions and referrals to appropriate governmental agencies, and have provided the basis for other corrective actions.

\$200 Million Public/Private Project **Meadowlands Remediation and Redevelopment Project (EnCap)** **\$40 million prevented from misuse**

Highlights: Beginning in 2007, OIG conducted an unprecedented, year-long investigation into the nine-year history of the Meadowlands Remediation and Redevelopment project's financing following the concern that towns specifically impacted by the Meadowlands Project could be at financial risk as a result of their agreements with EnCap, the Project's developer. In the course of its investigation, OIG conducted interviews of more than 75 individuals, (some on multiple occasions) and collected and analyzed over 60,000 documents.

Shortly after OIG's investigation commenced, the Inspector General met with Governor's Counsel to share OIG's early shocking findings including:

- the Project's due diligence at the outset was woefully deficient, and did not pick up EnCap representatives deliberate attempts to mislead the State and other public entities; and,
- since the Project's inception, it was plagued by miscommunication, misrepresentation, and mismanagement by EnCap representatives.

As a result, the Project was halted, and state funds in excess of \$40 million were protected from being misspent. Additionally, the Governor was provided with tools to enforce the State's rights under its contract with EnCap and to gain access to a performance bond that provided funds to complete the project.

An Executive Order imposing new bans on pay-to-play for redevelopment contracts was issued, and legislation has been enacted to prevent similar failures from occurring in these projects in the future. OIG has also referred this matter to the appropriate federal and state criminal investigative authorities and has continually cooperated with these agencies as the criminal investigation continues.

Department of Corrections Inmate Health Services Contract
\$4.7 million identified for recovery; Deputy Commissioner removed from service

Highlights: OIG's review beginning in 2006 revealed that the Department of Corrections (DOC) failed to accurately monitor its inmate dental health services contract requirements resulting in DOC's inability to guarantee that DOC was receiving services for which it paid and whether or not it was paying undue compensation to Correctional Medical Services (CMS). OIG further concluded that DOC had not calculated nor assessed liquidated damages against CMS for its failure to comply with contractual requirements to provide dental services.

OIG's continued investigation, concluded in 2008, into the DOC Inmate Health Services Contract revealed:

- an improper agreement between a DOC Deputy Commissioner and a CMS Vice President had been the cause of DOC's failure to assess liquidated damages;
- the Deputy Commissioner had misled two successive Commissioners of DOC regarding the applicability of liquidated damages and had provided false information to OIG during its investigation; and,
- significant weaknesses in DOC's fiscal management department and brought them to the attention of the Commissioner of Corrections.

As a result of OIG's findings, the Deputy Commissioner is no longer employed by the State.

OIG expanded its review to include medical services in addition to dental services, resulting in a finding that approximately \$4 million in liquidated damages should have been assessed against CMS for failure to meet contract specifications. OIG's continuing investigation also revealed that CMS had overcharged DOC approximately \$700,000 in improper management fees. Of this amount, CMS has acknowledged and repaid the State approximately \$430,000 and some of the liquidated damages. OIG's report has been recognized by the Court as a reasonable basis for the State's withholding final payments from CMS pending resolution of litigation and OIG continues to assist the Attorney General's efforts in obtaining reimbursement of funds.

Investigation of Division of Addiction Services
Assistant Commissioner removed from service

Highlights: OIG's 2006 investigation revealed that the Assistant Commissioner of the Division of Addiction Services (DAS) in the Department of Human Services (DHS):

- secured unwarranted benefits for organizations with which she had a long standing professional relationship before her appointment;
- created an appearance of conflict when exercising her official duties regarding matters concerning these organizations and their representatives;
- was responsible for undermining DAS internal controls in place to protect DAS grant funds, ultimately weakening the award, oversight, and monitoring functions of DAS; and,
- allowed a significant amount of DAS funds to be misused by her favored organizations during her tenure.

The DHS Commissioner terminated the Assistant Commissioner's employment during OIG's investigation and took corrective action to fortify DAS internal controls and the DAS internal audit function. OIG referred the matter to the Division of Criminal Justice to determine whether further action was warranted.

DAS Grant Compliance and Performance Review, Associated Treatment
Providers Management Services Network, Inc.
\$1.76 million identified for recovery; \$2.3 million not spent

Highlights: OIG conducted a line-item financial review to determine almost exactly to the penny how the grant funds were used and to determine if the expenditures claimed were in accordance with State and federal grant requirements. This analysis included an examination of whether or not grant performance was reported accurately and properly and resulted in a finding that in fact, many of the documents submitted to DAS by the grant recipient were false or misleading.

OIG's investigation concluded that, at a minimum, \$1.76 million of misspent or unused State funds provided to the grant recipient should be returned to the State, and recommended that another \$4.4 million be reviewed by DHS to determine whether the use of those funds was acceptable to DAS or should be returned as well. Moreover, as a result of the evidence uncovered by OIG's investigation, DAS terminated the 2006 grant early and \$2.3 million in State funds were rescued from a well-established pattern of misuse by the grantee.

The findings and conclusions of this investigation were forwarded to the Division of Criminal Justice, Department of Labor and Workforce Development to determine whether there were wage and hour violations, and the Division of Taxation to determine whether there were tax reporting violations.

Annual Authorities' Benefit Review
Authorities' benefits reduced to level of State benefits

Highlights: OIG has undertaken extensive reviews, both an across the board review of state authority benefits and a top-down intensive look at certain authorities pursuant to its directive in Executive Order Number 41 (Codey 2005). OIG's initial across the board review revealed that the benefits provided to authority employees often varied from the benefits provided to non-authority State employees, and in most cases where there was a difference, the benefits provided to authority employees were superior to those provided to employees of the State departments and agencies.

Since OIG's first benefits report in 2006, the office has annually reported on the benefits provided to State authority employees noting where discrepancies exist, uncovered conflicts of interest, and other authority specific reviews resulting in reports concerning:

- ethics fines paid to the State (the former President and Chief Executive Officer of the New Jersey Sports and Exposition Authority);
- possible pension abuses and associated false record keeping (outside counsel to South Jersey Transportation Authority); and,
- and other internal control deficiencies in the State's authorities, boards and commissions.

To date, substantial corrective action has been taken in response to OIG's findings and recommendations. Where possible, many authorities have brought their employee benefits into line with benefits provided to State employees. OIG's 2009 Authority Benefits Review was released in February and included newly requested information from the authorities – specifically, does the authority, if not required to, still impose the State's Fiscal Year 2010 furlough program or any other authority-implemented cost-saving measures? OIG's review revealed that in fact, approximately half of the authorities included in OIG's annual review were not required to, and did not participate in, the State Furlough Program. OIG's 2010 review will include new information including authority Executive and Board compensation.

Possible Ethics Violations by NJ Sports and Exposition Authority President
and Chief Executive Officer
President/CEO resigns; signs ethics consent letter; pays fine

Highlights: While conducting its work related to EO No. 41 in 2007, OIG initiated a specific review of the internal controls in place at State authorities whose enabling legislation allows for the retention of outside legal counsel, including the New Jersey Sports and Exposition Authority (NJSEA). During its review, OIG became aware of relationships between the NJSEA President/Chief Executive Officer (CEO) and the law firm who served as outside general counsel to NJSEA after the CEO's appointment. The CEO frequently conferred with members of the firm on NJSEA matters and voted monthly with NJSEA Board members to approve payment of the law firm invoices.

OIG's investigation revealed that:

- the CEO had a longstanding personal friendship and professional relationship with a partner in the firm, who had represented the CEO in both his personal and personal business legal matters;
- the CEO's son was employed by the firm as a summer intern and upon graduation from law school, continuing through the time of OIG's investigation, as an associate;
- the CEO had not advised the NJSEA Board, NJSEA in-house legal staff, NJSEA Ethics Officer, or the State Ethics Commission (SEC) of his relationships with the firm; and,
- had not recused himself from NJSEA matters involving the firm.

During OIG's investigation the CEO resigned from his position at the NJSEA. OIG referred its findings to the State Ethics Commission (SEC). The former NJSEA CEO signed a consent letter with the SEC agreeing to pay a fine.

State Public Employees' Retirement System
Potential savings of \$1 million to State pension system

Highlights: A 2009 OIG report questioned the over 27 year State pension enrollment of a lawyer/partner in a law firm individual simultaneously retained by multiple government entities to provide legal services, specifically questioning the appropriateness of classifying him as an employee eligible for pension credits, rather than as an independent contractor. Over his career, the individual was accruing pension credits and associated benefits potentially worth over a million dollars in State pension benefits.

OIG referred its findings to the Division of Pensions and Benefits to determine whether the credits accumulated under these payment arrangements are warranted. OIG also referred the conduct of the individuals and entities described in its report to the Division of Criminal Justice, State Ethics Commission, Division of Taxation, Department of Labor and Workforce Development, Division of Local Government Services, and the Office of Attorney Ethics to determine whether any action is warranted by them. Moreover, OIG is reviewing the conduct of other individuals who appear to have engaged in similar conduct and will refer its findings to the Division of Pensions and other appropriate State agencies for their review.

Internal Controls and Compliance with State Regulations and Executive Orders:
South Jersey Transportation Authority and South Jersey Transportation
Planning Organization
Immediate savings of \$600,000 identified

Highlights: OIG's two-year review of the South Jersey Transportation Review conducted pursuant to Executive Order No. 41 revealed an absence of, outdated, and noncompliance with existing internal controls leading to wasteful spending and practices including among other things:

- personal use of authority assets;
- lack of an inventory system;
- failure to appoint an Ethics Liaison Officer and other ethics lapses; and
- paying outside counsel exorbitant fees for minimal work.

As deficiencies were identified, OIG advised authority management and the Governor's Authorities Unit. New board and executive management were appointed, and they in turn took immediate action to address OIG concerns. OIG's review exemplifies how OIG's process, in conjunction with an entities' cooperation, can work and lead to effective, positive change in government on a real-time basis.

New Jersey Department of Transportation
Employee-Assigned Equipment Review

Highlights: Former Commissioner of the Department of Transportation (DOT) Kris Kolluri asked OIG to assist DOT in its effort to determine whether DOT's resources were being used efficiently. He also requested OIG's assistance in determining whether DOT mileage reimbursement for use of personal vehicles as an alternative to utilization of State-owned vehicles has been appropriate or excessive. OIG reported the results of the analysis to Commissioner Kolluri with proposed action items for his consideration intended to assist DOT management in ensuring proper support for issuance of communication devices, equipment and mileage reimbursements. During the course of OIG's review, Commissioner Kolluri worked to correct certain potential abuses of the mileage reimbursements implementing a new policy that allows for vehicle mileage reimbursement of a personally-owned vehicle only when a State-assigned or pool car is not available.

Letter to Attorney General Anne Milgram
Victims of Crime Compensation Agency (VCCA)

Highlights: In 2008, OIG had been requested to review the VCCA's operations by the Department of Treasury (Treasury) which had expressed concerns to OIG that VCCA was not following sound fiscal policies and procedures. While conducting its review of VCCA operations, OIG identified substantial items that it believed would be of immediate concern to the Attorney General. OIG wrote to the Attorney General to detail certain initial findings and concerns regarding potentially inappropriate awards of payments to claimants.

After the Attorney General became responsible for VCCA, the Attorney General assigned staff to review the agency's operations and processes and to identify possible improper payments. The then-Executive Director was terminated and the Attorney General assigned a temporary Executive Director and has since assigned a permanent Executive Director. OIG has met with the United States Department of Justice Inspector General on two occasions and the New Jersey Division of Criminal Justice on two occasions to assist in their review of the program, and cooperated with the State Ethics Commission.

Schools Development Authority Office of the Inspector General

As mentioned earlier in this report, an important recommendation for further improvement of the SCC's internal controls and efficient construction of schools included in OIG's 2006 Update Report was for SCC to establish an SCC OIG to help restore the SCC's overall fiscal integrity. New SCC management welcomed this recommendation, and OIG and SCC entered into a Memorandum of Understanding (MOU) in 2006 to create two additional Assistant Inspector General positions within OIG. This unit is staffed with two experienced attorneys who report directly to, and work at the direction of, the Inspector General but work exclusively on SCC-related issues. The SDA (the SCC replacement authority) has continued that MOU every year as it has been found to provide a valuable function to the leadership and been beneficial to the overall integrity of the organization.

SDA OIG responsibilities include investigating and examining various operations of the SDA to assist in ensuring that the activities of the SDA are performed in an economical, effective, ethical, and efficient manner, to help guard against waste, fraud, abuse and mismanagement, and to identify opportunities for cost savings for SDA's consideration. These Assistant Inspectors General enjoy full and complete access to SDA records and conduct interviews with SDA staff and entities doing business with the SDA. The Inspector General and

two SDA OIG Assistant Inspector Generals have a standing meeting every other week with the Chief Executive Officer (CEO) of the SDA and selected members of SDA staff to discuss ongoing investigations and other matters of concern or interest to SDA OIG or SDA CEO. The meetings have been very productive in bringing important concerns to the surface in identifying possible weaknesses.

SDA OIG work over the last several years includes:

- investigation concerning fraudulent actions by a tenant who submitted a falsified lease to the SDA, causing SDA to overpay a rent supplement to the tenant. SDA OIG referred the results of its investigation to the New Jersey Division of Criminal Justice (DCJ) for further action. DCJ subsequently obtained a three count indictment against the former tenant and the tenant entered a guilty plea to one of the three counts; he was sentenced to three years' probation and was ordered to pay \$10,080 in restitution to the SDA;
- investigation of allegations that a former SDA employee attempted to represent his new employer, an SDA project management firm (PMF), on a matter in which he had been directly involved while employed at SDA. SDA OIG's investigation uncovered evidence that the former SDA employee did in fact lobby on behalf of his new employer for a payment of a change order worth approximately \$600,000. Additionally, the former employee was responsible for negotiating this change order with the PMF while he was employed at SDA. Before negotiations on the change order had concluded, and without the knowledge of SDA management, the individual sought and secured employment with the PMF. Moreover, when resigning from SDA, the individual misled SDA management into believing that he was going to work for another public agency rather than the PMF with whom he had negotiated with. Inspector General Cooper referred the matter to the SEC and the Division of Criminal Justice for their review;
- investigation of an allegation that an SCC employee had invited several SCC vendors with whom he had a professional working relationship to participate in a golf outing the SCC employee had organized for the benefit of the employee's church. OIG's findings and report to management provided the basis for SCC to take disciplinary action against the SCC employee including a two day suspension without pay;
- numerous investigations of allegations of false certifications made to the SDA by general contractors regarding payments the contractor had made, or would soon make, to subcontractors. SDA OIG refers these matters to DCJ for determination as to whether or not the conduct described warrants further action;
- investigation that an SDA employee misused an SDA-owned E-Z Pass and in doing so, incurred unallowable toll charges while commuting between his residence and the SDA office. The conclusions of SDA OIG's investigation enabled the SDA to take personnel action against the employee;
- uncovering an incorrect charge to the SDA of approximately \$200,000 by an engineering firm. SDA OIG brought such charge to the attention of SDA management who have as a result begun efforts to recover monies for this "errors and omissions" charge against the engineer;

- implementation of an individual “Absence of Benefits Certification” by all members of SDA staff, whereby each staff member certifies that he or she has neither sought, nor received, any item or other thing of value in the past calendar year from an interested party. If an employee has received an item that has not been previously reviewed and approved for acceptance by the Authority’s Ethics Liaison Officer, that employee is required to list all such items or things of value on the Absence of Benefits Certification. OIG made this recommendation to SDA and has subsequently recommended that staff at other Authorities who deal with outside vendors sign a similar annual absence of benefits; and
- working with SDA staff to ensure that SDA post at all of its construction sites signage displaying the OIG Hotline number and encouraging the public to contact the Hotline to report suspicions of waste, fraud or abuse in connection with the use of funding for a school construction project.

IV. American Recovery and Reinvestment Act: Federal Stimulus Funds to New Jersey

The Inspector General is a member of the New Jersey Recovery Accountability Task Force, which is charged with assuring transparency and accountability in the distribution of over \$17 billion of federal stimulus funds in New Jersey on the state and local level.

The Inspector General and dedicated staff have met with the GAO, attended regularly scheduled Task Force meetings and the Inspector General has established communications with several state and federal agencies to take advantage of training and programs and open lines of communication for best practices.

Internal Control Training Initiative

Because of Inspector General Cooper's experience in the private sector, she realized the importance of adherence to a strong set of internal controls by the recipients of ARRA funds in order to protect these at-risk funds. The Inspector General initiated an aggressive state wide internal control training effort on behalf of the Recovery Accountability Task Force. The Task Force Internal Control sub-group initially included Medicaid Inspector General Mark Anderson and former State Auditor Richard Fair.

First steps taken by the Internal Control sub-group included meeting with the Commissioners at State Departments & Heads of Agencies receiving ARRA funds and/or their top level managers to reinforce the importance of setting the appropriate tone at the top; working with them to identify potential areas of risk of waste and abuse; collaborating with their staff to create an appropriate curriculum; and delivering training to identified individuals charged with spending ARRA funds. These sessions also emphasized evolving issues recently identified by state and federal oversight agencies, including GAO and OMB, concerning the expenditure of ARRA funds.

The sub-group had its first training session in mid-May 2009 and since that time, has met in over 40 sessions and reached over 1,600 individuals representing ARRA recipients at state, county, and local entities. In addition, Task Force Member NJ Chief Technology Officer Adel Ebeid arranged for his staff to record the training sessions and create a training resource library including video recordings of several training sessions, as well as other resources. The training resource library can currently be accessed on OIG's website: <http://www.state.nj.us/oig/> and the Task Force Website: <http://www.nj.gov/taskforceresources/>

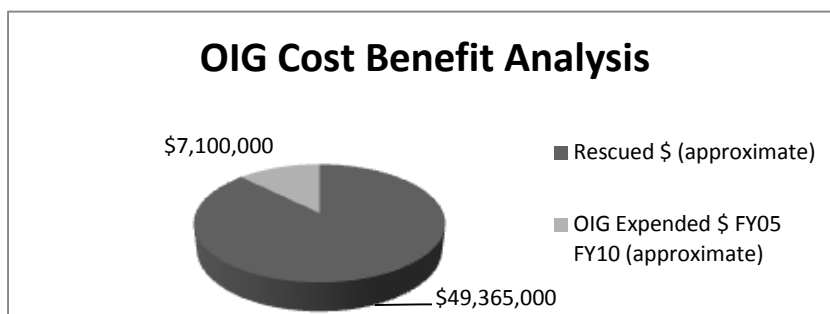
The foresight of the early decision to emphasize internal controls has been reinforced by GAO's reports where it has been positively mentioned. As a result of these training sessions, the Inspector General has recognized a need for comprehensive, easily referenced internal control guidance for entities. OIG has created an internal control resource guide available on OIG's website that is constantly updated with new and useful materials.

IV. Office of the Inspector General Operational Information

OIG's current FY10 appropriation is approximately \$1.677 million and its recommended FY11 appropriation is \$1.566. At OIG's inception in 2005, the original appropriation was \$2.5 million and the office was approved for 20 FTEs. Since that time, OIG has reduced its annual appropriation by nearly one million dollars and eliminated full-time positions through attrition in order to reach required budget reductions, and still each year realized a surplus of funds that is provided back to the General Treasury funds. Since OIG's creation in 2005, the office has conducted numerous large-scale and small-scale investigations and reviews that have resulted in money rescued¹ as a result of OIG's investigative findings and every year OIG has identified recovery or saving opportunities for the State that in total, far exceed OIG's annual appropriation.

While many of OIG's findings cannot always be easily translated into specific cost savings, the financial benefit to the state is usually clear. For instance, OIG's investigation into the then New Jersey Schools Construction Corporation, now SDA, prevented additional millions of dollars from being wasted and/or mismanaged. OIG's SCC investigation quickly identified an \$8.66 billion agency nearly devoid of internal controls and made an immediate recommendation to then Governor Codey to put a halt to spending until SCC could ensure the proper expenditure of the remaining \$4 billion of the funds entrusted to it. OIG then monitored the agency as it implemented a robust internal control structure, hiring of new management, and as spending resumed. Although OIG cannot place a specific dollar figure on the amount OIG's SCC investigation protected from waste or mismanagement, it is clearly in the tens of millions of dollars given the speed, magnitude, and haphazard manner in which money was flowing from SCC prior to OIG's investigation.

Perhaps more importantly, OIG's investigations name managers who are responsible for the wrongdoing, mismanagement, and erosion of a government agency's internal control system and provide the evidence to support the removal of several of these managers. OIG has provided this service to State government numerous times thereby putting an end to the incalculable loss associated with the improper activities of these managers.



¹ Rescued funds include but are not limited to the following: funds that have been reimbursed to the State; disbursements prevented and/or stopped due to contract cancellations, project cancellations, or the cessation of grants; and, funds where reimbursement is being sought but litigation is pending.

Still, OIG has been able to specifically identify over \$49 million that it has rescued in its just over five years of existence including approximately:

- **\$40 million** in State funds prevented from being misspent on the EnCap project as the project was halted;
- **\$4 million** in liquidated damages that should have been assessed but were not by DOC against the vendor CMS, for failure to meet contract requirements;
- **\$700,000** in overcharges to DOC by CMS for improper management fees;
- **\$2.3 million** in DAS grant funds rescued from a pattern of misuse by the grantee due to DAS' early termination of the grant;
- **\$1.76 million** in misspent or unused grant funds provided to DAS grant recipient recommended for reimbursement;
- **\$600,000** in immediate savings due to the reduced cash waiver of benefits and longevity pay benefit and elimination of attorney retainers at SJTA initiated in response to OIG's findings; and
- **\$5,000** ethics fine paid to the State by former NJSEA President/CEO.

These recognized rescued funds more than justify OIG's budget and represent a significant benefit, with a negligible cost, to the State. As the above figure shows, the total amount of funds expended on OIG in the five years of its existence is a mere fraction of the amount rescued. Indeed, this partial picture of the benefits of OIG's work means that for every \$1 spent on OIG operational costs, approximately \$7 of state money is being rescued with an even larger amount being protected from future waste or mismanagement.

